

## Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03

SP-02 LAB-04 EPG-02 SIL-01 OMB-01 DODE-00 PA-01

PRS-01 /060 W

-----160328Z 084299 /62

R 152338Z JUN 77

FM AMEMBASSY MEXICO

TO SECSTATE WASHDC 2873

AMCONSUL MONTERREY

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STATE PASS EXIMBANK, COMMERCE

E.O. 11652: N/A

TAGS: EMIN, BBAK, MX

SUBJECT: FUNDIDORA MONTERREY MANAGEMENT CHANGE

REF: MONTERREY 331

1. BEGIN SUMMARY. FUNDIDORA MONTERREY'S FINANCIAL PROBLEMS AGGRAVATED BY DEVALUATION HAVE BEEN EXACERBATED BY THREE-WEEK STRIKE. GOM, WHICH HOLDS 44 PERCENT OF STOCK, HAS NOW TAKEN OVER MANAGEMENT. END SUMMARY.

2. FUNDIDORA MONTERREY WAS CAUGHT BY LAST AUGUST'S DEVALUATION WITH LARGE DOLLAR DEBT (\$350 MILLION) DUE TO NOW COMPLETED EXPANSION PROGRAM. TO RELIEVE UNFAVORABLE DEBT/EQUITY RATIO, NEW PREFERRED STOCK ISSUE WAS FLOATED AND LARGELY ACQUIRED BY NACIONAL FINANCIERA, S.A., GOM-OWNED DEVELOPMENT BANK. THIS MOVE GAVE GOM 44 PERCENT, LARGEST SINGLE BLOCK, OF TOTAL EQUITY. AT TIME OF ACQUISITION OF ADDITIONAL EQUITY GOVERNMENT SOURCES ASSURED US THAT GOM TAKEOVER OF FUNDIDORA WOULD NOT OCCUR.

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HOWEVER, IT HAS JUST BEEN ANNOUNCED THAT NATIONAL PROPERTIES AND INDUSTRIAL DEVELOPMENT SECRETARY JOSE ANDRES DE OTEYZA HAS REPLACED CARLOS PRIETO SR. AS CHAIRMAN OF FUNDIDORA. PRIETO JR. IS REPORTEDLY BEING MOVED OUT OF FUNDIDORA TO SIT ON BOARDS OF ALTOS HORNOS AND SICARTSA, OTHER TWO GOVERNMENT-OWNED MAJOR STEEL PRODUCERS. JORGE LEIPEN GARAY, UNDERSECRETARY FOR IRON AND STEEL AND NON-

RENEWABLE RESOURCES IN PATRIMONY SECRETARIAT IS BEING NAMED DIRECTOR GENERAL. FINANCE DIRECTOR EUGENIO SISTO IS STAYING ON, AT LEAST FOR MOMENT. GOM WILL HAVE TO FIND NEW MANAGEMENT TEAM AS NEITHER DE OTEYZA NOR LEIPEN GARAY WOULD HAVE TIME OR ABILITY TO RUN FUNDIDORA.

3. SOME OF FUNDIDORA'S PRIVATE BANKERS ARE REPORTEDLY CONCERNED OVER MANAGEMENT SHIFT, BUT OTHERS ACCEPT IT AS INEVITABLE AS GOM ONLY SOURCE OF CAPITAL IN MEDIUM TERM AND GOM RELUCTANT TO INVITE FOREIGN CAPITAL IN.

4. STRIKE AT FUNDIDORA (SEE MONTERREY 331) IS NOW ENTERING FOURTH WEEK AND MAY BE FACTOR IN MANAGEMENT CHANGE. STRIKE IS UNDOUBTEDLY WORSENING FUNDIDORA'S PRECARIOUS FINANCIAL CONDITION. AS OF JUNE 13, LOSSES TO COMPANY DUE TO THE STRIKE WERE REPORTED TO EXCEED 315 MILLION PESOS. EVEN BEFORE STRIKE, PRIETO JR. HAD TOLD EMBASSY AND EXIMBANK OFFICIALS THAT 1977 WOULD BE LOW YEAR FOR FUNDIDORA. HE FORESAW THAT IT WOULD BE US \$45 MILLION IN RED FOR YEAR, AND THAT IT WOULD NOT SHOW PROFIT AGAIN BEFORE 1979.

5. GOVERNMENT TAKEOVER, WHILE NOT SURPRISING, IS DISAPPOINTING AS IT MEANS GREATER PUBLIC SECTOR OUTLAYS TO NURSE A SICK COMPANY BACK TO HEALTH. IT IS ALSO FIRST STEP TOWARD PROPOSED MERGER OF FUNDIDORA WITH ALTOS HORNOS DE MEXICO AND SICARTSA INTO NEW GOM HOLDING COMPANY (TENTATIVELY NAMED SIDERMEX) TO FACILITATE COORDINATION OF PLANNING, PRODUCTION, AND MARKETING WITHIN INDUSTRY. ONE FOREIGN BANKER HAS TOLD US HIS BANK WOULD OPPOSE MERGER AS LIMITED OFFICIAL USE

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IT WOULD UNITE TWO AILING CONCERNS WITH ONE MODERATELY HEALTHY COMPANY, ALTOS HORNOS. THOMPSON

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NNN

## Message Attributes

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**Channel Indicators:** n/a  
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**Disposition Date:** 22 May 2009  
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**Review Markings:**  
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